

BOARD OF DIRECTORS

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BOARD OF DIRECTORS

Chapter 1: General

Introduction

1. (a) Effective corporate governance is an essential element in the safe and proper functioning of a banking corporation, and consequently in achieving and maintaining public confidence in the banking system. Given the important role of banking corporations in the economic system, and their sensitivity to difficulties stemming from ineffective corporate governance, and in view of the need to protect the deposit holders, proper functioning at a high standard by the board of directors has become an increasingly important part of proper corporate governance and the proper running of a banking corporation. For this purpose, directives governing a board of directors' functions, composition, and method of operation have been established. These directives constitute the minimum rules required for the proper conduct of a banking corporation in all matters pertaining to the actions of its board of directors.
- (b) In order to remove all doubt, it is hereby stated that as a rule, these directives are designed to supplement the Companies Law.

Application

2. (a) These directives shall apply to all the following corporations (in this directive—"banking corporation"):
 - (1) banking corporation;
 - (2) auxiliary corporation that is a credit card company;
 - (3) merchant acquirer as defined in Section 36(i) of the Banking (Licensing) Law.
- (b) The Supervisor of Banks is entitled to issue specific directives differing from those given below that apply to a specific banking corporation or specific director, or to exempt, in exceptional cases, a banking corporation or a director from a specific directive, if the Supervisor is convinced that circumstances justify it. With regard to this Directive,

the provisions of Section 5 of Proper Conduct of Banking Business Directive no. 100 shall not apply.

Definitions

3. **“The Ordinance”**—The Banking Ordinance, 1941

“Banking (Licensing) Law”—The Banking (Licensing) Law, 5741-1981

“Companies Law”—The Companies Law, 5759–1999.

“Internal auditor” – the internal auditor of the banking corporation, as referred to in Section 14E of the Ordinance.

“General manager”—An individual who holds the most senior management position in the banking corporation, regardless of his or her title.

“Office holder”—As defined in the Companies Law, unless stated otherwise in this directive.

“Personal interest”—As its understanding in the Companies Law.

“Audit and control function”—Includes internal audit, risk management, or the compliance function—the function or its head, as relevant.

“The external auditor”—The external auditor of the banking corporation, as referred to in Proper Conduct of Banking Business Directive No. 302 – "External Auditor of the Banking corporation".

“Branches”—controlled corporations, branches, representative offices, and agents outside of Israel.

“Controlled corporation” - A corporation controlled by the banking corporation.

Office holder’s certification

4. (a) In accordance with Sections 11A and 15c(b) of the Banking Ordinance, a person shall not serve as an office holder in a banking corporation unless the Supervisor of Banks was notified at least 60 days before the start of the office holder’s term. The banking corporation shall enclose with the said notice a questionnaire to be completed by the candidate. (The questionnaire form is attached in Appendix A). The Supervisor is entitled to change and revise the questionnaire from time to time.

- (b) In order to remove all doubt, it is hereby clarified that any of the following cases shall also be considered an appointment of a person as an office holder as referred to in subsection 4(a) above, and requiring that the Supervisor be notified in advance, as required under the Ordinance:
- (1) Extension of a term or reappointment to the same position;
 - (2) Appointment to a different position as an office holder;
 - (3) Appointment of a director as chairman of the board of directors;
- The banking corporation shall attach to the notice a list of the changes, if any, in the particulars listed by the candidate in the previous questionnaire that he filled out. To this list of changes shall be attached the candidate's declaration and the banking corporation's declaration in the format appearing in the questionnaire at the time.
- (c) The office holder must give notice through the banking corporation of events or changes in the particulars mentioned in Sections 4, 5, 6, and 7.10, excluding subsections 6.2 and 6.3 in Appendix A; and in other particulars announced by the Supervisor from time to time, soon after such events or changes occur. The Supervisor shall consider and decide whether, due to such changes, to order the termination of the office holder's term under Section 11A(e) of the Ordinance. The office holder and the banking corporation must attach to the notice a statement as formulated in Appendix B.
- (d) For the purposes of this section (Section 4), "**office holder**" is as defined in section 11A of the Ordinance.

Chapter 2: The functions and authority of the board of directors

The functions of the board of directors

5. The board of directors bears responsibility for the banking corporation's business and financial soundness. The board of directors shall employ all reasonable measures required to fulfill its duties in accordance with the law and as stated in this directive.
 - (a) The board of directors shall formulate the banking corporation's strategy, and shall approve the board of directors' policy, which will guide the banking corporation in its regular activity.
 - (b) The board of directors shall supervise the actions of management and their compliance with the board's policy.
 - (c) The board of directors shall verify the existence of clear areas of responsibility and accountability in the banking corporation.
 - (d) The board of directors shall formulate an organizational culture for the banking corporation that requires implementation of high standards of professional behavior and integrity.
 - (e) The board of directors shall verify the banking corporation's compliance with the law and regulations.

Subjects that the board of directors is obligated to discuss and decide

6. The board of directors shall discuss, decide, approve, and issue instructions, whichever is relevant, on the following topics:

Overall strategy and policy

- (a) The overall strategic goals of the banking corporation, controlled corporations, and branches, including the principles for actions, the business model and profit sources, operational efficiency, overall risk strategy, and appetite for risk, as detailed in Directive 310

The discussion on strategic goals is to be conducted against the background of the macroeconomic, business, and regulatory environment in which the banking corporation operates.

The board of directors of a controlled corporation must take into account the group's overall strategic goals, as determined by the board of directors of the controlling corporation, insofar as they are consistent with the good of the controlled corporation and the stipulations of Section 11 of the Companies Law;

- (a1) The banking corporation's organizational structure and the group's structure. The board of directors is to examine that the structures of the banking corporation and the group are consistent with its business strategy, with reference to, among other things, the types of corporations in the group and the manner of their holding and control, and to the controlling banking corporation's ability to identify, control and manage the risks at the group level, including excess risks deriving from complex structures. To that end, the board of directors shall verify that the structures of the banking corporation and of the group include appropriate channels of communication and of reporting.

In this subsection, "group" refers to the banking corporation and corporations controlled by it.

- (b) Overall risk management policy, including approval of policy and the method of risk management for each of the banking corporation's various risks, plus all its controlled corporations and branches (credit risks, market risks, operational and technology risks, liquidity risks, compliance risks, legal risks, etc.), as listed in Section 15 of Proper Conduct of Banking Business Directive 310;

The board of directors of a controlled corporation must take into account the group's risk management policy, as determined by the board of directors of the controlling corporation, insofar as it is consistent with the good of the controlled corporation and the stipulations of Section 11 of the Companies Law;

- (b1) Approval of new product policy and examination and pre-approval of significant new products prior to their operation, as detailed in Proper Conduct of Banking Business Directive 310;
- (c) The banking corporation's credit policy, and the goals listed in Proper Conduct of Banking Business Directive 311;
- (d) The banking corporation's IT and E-Banking policy and strategy;

- (e) The process of evaluating capital adequacy in comparison with the level determined for exposure to risk, capital policy, and capital structure and the changes in it;
- (f) Targets for achievement during the coming year and the degree to which they match the banking corporation's policy, and approval of the work plan in view of these targets;
- (g) The banking corporation's overall budget (income, expenditures, and investments), and monitoring its actual performance;

Supervision and control

- (h) Reporting the banking corporation's business situation, as described in Section 8;
- (i) Significant deviation, as defined by the board of directors, from the restrictions established in the framework of the policy determined by the board of directors;
- (j) Types of exceptional events that the board of directors should discuss, and discussion of significant exceptional events in accordance with the circumstances described in Section 9;
- (k) Mechanisms for supervision and control of controlled corporations, as described in Section 10;
- (l) Work of the audit and control functions, as described in Section 11;
- (m) Audit reports as listed in Section 36(a)(2);
- (n) Approval of the banking corporation's annual and quarterly reports to the public;
- (o) Notices from the external auditor;
 - (1) Notices of failure to correct deficiencies under Section 3(B) of Proper Conduct of Banking Business Directive 304;
 - (2) Notice of doubt concerning the banking corporation's continued existence as a going concern under Section 6(C) of Proper Conduct of Banking Business Directive 302;

Personnel and remuneration policy

- (p) Appointment of a general manager, as described in Section 12, his dismissal, and evaluation of his performance;
- (q) Appointment policy and evaluation of the performance of the senior echelon, as

described in Section 13;

- (r) Periodic rotation of certain office holders in the banking corporation, as described in Proper Conduct of Banking Business Directive 360;
- (s) Remuneration policy (as defined in Proper Conduct of Banking Business Directive 301A), after taking into account the recommendations of the remuneration committee;
- (t) Contractual agreement between the banking corporation and senior office holders regarding their remuneration (as these terms are defined in Proper Conduct of Banking Business Directive 301A), after the approval of the remuneration committee and before the approval of the general meeting as required and with regard to the Internal Auditor, the board's approval shall also be at the recommendation of the audit committee;
- (u) Principles of remuneration agreements of banking corporation employees who are not senior office holders;

Miscellaneous

- (v) An issuance of shares (including options and convertible securities) by a controlled corporation, whether in Israel or overseas, and any other issuance by a controlled corporation guaranteed by the banking corporation, other than an issuance by a corporation in which the parent corporation holds all the means of control, and in which the issuance is to the banking corporation itself or a corporation controlled by the banking corporation;
- (w) Making changes in the structure of the banking corporation's control of a controlled corporation whose activity is significant for the banking corporation;
- (x) Making and selling permanent investments, including an investment in a controlled corporation, whether located in Israel or overseas, according to criteria established by the board of directors, where the amount of the investment is one of the criteria; the criteria shall be determined in a way that avoids involvement by the board of directors in regular management of the banking corporation;
- (y) A code of ethics for the banking corporation, as described in Section 15;

- (z) A policy for preventing conflicts of interest and controls for them, as described in Proper Conduct of Banking Business Directive 312 and in Section 16;
- (aa) A policy on “non-transparent activities,” as described in Section 17;
- (ab) Any other matter of significance to the banking corporation’s activity, or to supervision and control of its conduct.

Credit

7. Repealed.

The business situation of the banking corporation

8. In the discussion of the business situation of the banking corporation under Section 6(h), the board of directors shall address the reports submitted to it written in a format decided by the board of directors. At a minimum, these reports shall include the following items:
- (a) Monthly report
 - (1) A summary of the balance sheet and profit and loss statement that discusses the financial profits, income from fees, and operating expenditures;
 - (2) The degree of the banking corporation’s exposure to various types of risks;
 - (3) Handling of hard-to-collect debts whose amount are significant;
 - (4) Important changes in the situation of controlled corporations and significant investments in fixed assets;
 - (5) Transactions that are significant or exceptional for the banking corporation’s business according to the judgment of the general manager, in addition to the rules established by the board of directors in this matter;
 - (6) Activity of the banking corporation in the capital market for its own account (nostro).
 - (b) A quarterly document for exposure to the various types of risks, as described in Proper Conduct of Banking Business Directive 310.

Exceptional events

9. In the discussion of exceptional events under Section 6(j), the board of directors:
- (a) Shall discuss any event included in the list of types of exceptional events as determined by the board in advance, including lawbreaking or alleged lawbreaking, violation of proper conduct of banking and lack of integrity, provided that each exceptional event involving a suspected crime is referred immediately to the internal auditor for investigation or to the police, whichever is relevant, and that any exceptional event involving a reasonable suspicion of embezzlement, as described in Section 8D1 of the Ordinance is reported to the internal auditor and the Supervisor, as stipulated in Section 8D1 of the Ordinance and Proper Conduct of Banking Business Directive 351.
 - (b) Shall immediately discuss any event deviating from the ordinary course of the banking corporation's activity that is likely to have a substantial impact on the banking corporation's business (even if not included in the list appearing above in subsection 9(a)).

Mechanisms for supervision and control of controlled corporations

10. In discussing the mechanisms for supervision and control of controlled corporations under Section 6(k), the board of directors shall set general guidelines for the corporate governance structure in controlled corporations that will contribute to effective supervision of the group, and shall establish mechanisms for supervision and control of controlled corporations, including, at a minimum, the following:
- (a) Guidelines that ensure that controlled corporations communicate to the banking corporation the information necessary for regular monitoring of the group and supervision and control of its business and the volume of risk, subject to any law;
 - (b) Guidelines for establishing a central headquarters unit to concentrate and analyze this information on branches and deliver a summary report about it with recommendations to the banking corporation management in an approved reporting format;
 - (c) Guidelines and procedures that ensure that the internal auditor receives all the information and documents that he requires, in his judgment, in order to conduct an

internal audit and verify the existence of proper internal auditing in any controlled corporation in which he does not serve as the internal auditor, including the work plans of the internal auditors in controlled corporations, reports on exceptional events in these corporations, and any information and material required from the directors of these entities, or from their management, or from any of their employees, all subject to any law.

The board of directors of a controlled corporation must take into account the overall guidelines for the group issued by the board of directors of the controlling banking corporation, insofar as they are consistent with the good of the controlled corporation and the stipulations of Section 11 of the Companies Law.

Audit and control functions

11. In discussing the work of the audit and control functions under subsection 6(1), the board of directors shall verify that the banking corporation is making effective use of the audit and control functions to provide independent examination and confidence with respect to the operations and performance of the banking corporation, including:
 - (a) Verifying the independence, objectivity and effectiveness of the audit and control functions;
 - (b) Ensuring the qualifications of the audit and control functions and allocating suitable resources for their work;
 - (c) Verifying effective handling by management of the findings of the audit and control functions.

General manager

12. In discussing the appointment, performance and dismissal of a general manager under Section 6(p), the board of directors shall:
 - (a) Appoint only one general manager for the banking corporation
 - (b) Establish the process of appointing the general manager
 - (c) Define in detail the work methods and obligations of the general manager vis-à-vis

the board of directors;

- (d) Obligate the general manager to regularly report his actions to the board of directors, and define the reports that he or she must provide, including the reports listed in Section 8.

The senior echelon

13. In discussing appointments policy and evaluation of the senior echelon's performance under Section 6(q), the board of directors shall, among other things:

- (a) Approve appointment of executives by the general manager. The board of directors is entitled to rule that appointments to additional senior positions require its approval;
- (b) Discuss the circumstances under which key audit and control officers were dismissed;
- (c) Determine criteria and threshold conditions that ensure that candidates for senior positions possess appropriate and suitable qualifications for managing the affairs of a banking corporation;
- (d) In addition, verify the existence of a proper work plan for maintaining a suitable management reserve in the banking corporation;

14. Repealed.

Code of ethics

15. In discussing the code of ethics under Section 6(y), the board of directors shall, among other things:

- (a) Establish a code of ethics defining high values and standards of professional behavior and responsibility for the purpose of guiding the banking corporation in its regular activity, and which addresses matters such as corruption, private business, unethical behavior, and lack of fairness towards customers;
- (b) Verify that measures are taken to ensure that the standards mentioned above in sub-Section 15(a) are distributed and applied throughout the banking corporation;

- (c) Verify the existence of mechanisms for encouraging the reporting of illegal and unethical acts, while providing proper protection for employees complaining about negative consequences.

Conflicts of interest

16. In discussing policy for preventing conflicts of interest and their control under Section 6(z), the board of directors shall, among other things;
- (a) Establish guidelines for transactions with related parties, as required under Proper Conduct of Banking Business Directive 312;
 - (b) Establish mechanisms for separation between the banking corporation's activities in different sectors, between the banking corporation's activities and those of controlled corporations or between the banking corporation's activities and those of the group to which the banking corporation is related, if conflicts of interest are likely.

Non-transparent activities

17. In discussing "non-transparent activities" under subsection 6(aa), the board of directors must ensure that the banking corporation's policy and procedures are proper, and which facilitate:
- (a) Verifying that it is necessary that the activity be of a structure that limits transparency, and if not, closing it or changing its structure
 - (b) Defining and understanding the purpose of the activity and ensuring that its actual implementation matches the goal it was meant to achieve;
 - (c) Identifying, measuring, and managing all significant risks resulting from this activity, including legal (including anti-money laundering and counter the financing of terrorism) risks and risks involving goodwill;
 - (d) Supervision of the regular evaluations of compliance with all the relevant laws, and compliance with the banking corporation's internal policy;

In this section, "**non-transparent activities**" are activities carried out through compound entities (such as trustee entities and special-purpose entities) and activities of the

corporation on its own behalf or on behalf of others in jurisdictions in which enforcement and transparency mechanisms are weak or in jurisdictions established by the banking corporation as “Offshore”.

Frequency of discussions

18. The board of directors shall discuss the topics listed in Section 6 with the following frequency:

(a) The topic mentioned in subsection (a), at least once every three years; topics mentioned in subsections (b), (c), (e), (f), (p–q) (s)—concerning evaluation of performance only, at least once a year;

(b) Topics mentioned in subsections (i) and (j) concerning significant exceptional events; in subsections (m), (o(1)), and (q) concerning appointments and dismissals; and in subsections (v), (w), (x), and (aa) soon after the event, concerning the obtaining of reports, decisions, notices, or a requirement, depending on the circumstances of the matter;

(c) In subsection (g) – budget:

(1) The budget shall be submitted no later than the end of December of the year preceding the budget year under discussion; at the same time, an overall budget can be approved no later than the end of January of the budget year under discussion, provided that by the end of December of the preceding year, a temporary budget has been approved for the budget year under discussion or for January itself;

(2) The board of directors shall regularly monitor, at least once a quarter, the actual performance of the budget;

(d) In subsection (h) – the business situation of the banking corporation:

(1) The board of directors shall be briefed at least once every six weeks, and shall discuss as necessary the business situation of the banking corporation according to the monthly report mentioned in Section 8(a);

(2) Once every three months, the board of directors shall discuss the banking corporation’s business situation according to the risk exposure document

mentioned in subsection 8(b).

- (e) In subsection (n) – reports to the public – the reports should be discussed before their approval: once a quarter for quarterly reports and once a year for yearly reports;
- (f) In subsection (o(2)) – notice by the external auditor of doubt concerning the continued existence of the corporation as a going concern – the discussion shall take place no later than three days after the notice, before the financial statements are approved;
- (g) In the other subsections, the board of directors shall determine in advance the frequency at which they will be discussed, provided that a discussion takes place as soon as possible when the conditions requiring it are fulfilled.

Approval of means and monitoring for the implementation of decisions

- 19. (a) The board of directors shall verify the existence of adequate means of implementing its decisions, and shall monitor their implementation.
- (b) In cases in which the board of directors must set guidelines, it shall determine written procedures for handling the topics listed. The procedures shall determine and define the entity authorized to handle these matters and the method of handling them, and the accountability in a matter assigned to a different individual or entity in the banking corporation.

Meetings without the presence of management

- 20. (a) The board of directors shall hold a discussion at least once a year without the presence of management. The following topics shall be discussed at this meeting:
 - (1) Evaluation of the performance of the general manager and the functioning of management;
 - (2) Evaluation of the quality of the information received from management at meetings of the board of directors, including the amount and type of

information and its frequency;

(3) Salary and remuneration for the senior echelon;

(4) Evaluation of the audit and control function and of the effectiveness of controls in the banking corporation;

(5) Additional topics relating to the relationship between management and the board of directors.

(b) Once every two years the board shall hold a discussion to assess the effectiveness of the board's work as noted in Section 59;

Vesting authority in committees of the board of directors

21. The board of directors is entitled to use committees specializing in specific matters, which shall operate as described in Chapter 6 of this directive:

(a) The board of directors shall discuss and decide on which topics it will vest its authority in a committee on its behalf. The board of directors shall not vest authority in an undefined or residual manner in any of its committees, unless it has assessed the significance of such a concentration of authority.

(b) A decision to establish a committee shall be taken by the plenum of the board of directors. When the board of directors establishes a committee, it shall determine its composition, authority, and functions, and shall approve its procedures.

(c) Decisions taken by committees on the topics listed in Section 6 shall be reported in writing to the plenum, with the attachment of the background material submitted to the committee.

In any case, an additional discussion shall be held by the board of directors plenum if demanded by one or more of the directors within a period of time to be determined by the board.

(d) Regardless of the stipulations of subsections 21(a) and (b), the board of directors is not entitled to vest its authority in board of directors committees in the matters listed in the following subsections: 6(a), 6(b) except for risks that are not material or components that are not central to the risk management, 6(e), , 6(g) except for

ongoing monitoring of actual budget performance, 6(h), 6(i), 6(m), 6(n), 6(o), 6(p), 6(s), 6(t),.

- (e) The stipulations of subsection (d) do not apply to matters in which a decision in the framework of the committee is required under any law, or to matters in which the board of directors has obtained advanced written approval from the Supervisor.

Chapter 3: The composition of the board of directors

General

- 21a. The execution of boards' functions in an appropriate manner requires holding effective discussions on the various issues on the agenda. An effective discussion is held, among other things, when the directors represent a range of sectors and express different opinions, which prevents "groupthink".

Proper representation for both genders

- 21b. Without detracting from other requirements in this Directive, the composition of the banking corporation's board of directors shall give proper representation to both genders. To that end, the Board shall establish policy for the gender diversity percentage in it, including the range of time and the milestones for achieving the target.

Number of members of the board of directors

22. (a) The board of directors shall contain a number of directors that will encourage efficiency and significant strategic discussion, provided that it includes no less than 7 and no more than 10 directors.
- (b) Should a banking corporation become a banking corporation without a controlling core, and the number of its directors just before becoming a banking corporation without a controlling core is less than 10, the Supervisor of Banks is permitted to set instructions for said banking corporation regarding a gradual increase in the number of directors, up to reaching the full 10 members, and to that end may establish for said banking corporation a maximum number of directors for a given year or given years. This will take into account, among other things, the needs of the banking corporation in the period after becoming a banking corporation without a controlling core, including the need for balance in the composition between veteran directors and new directors.
- (c) A banking corporation that is not a bank, and the nature and scope of whose

transactions do not justify the appointment of 7 members to the board of directors may, if so permitted by the Supervisor of Banks, appoint a smaller number of directors to the board of directors.

- (d) A banking corporation that is of the opinion that a larger number of directors are needed for its board's proper functioning, may, if so permitted by the Supervisor of Banks, appoint a larger number of directors to the board of directors.

Employees of the corporation as members of the board of directors

23. Employees of the banking corporation shall not be appointed as members of the board of directors.

Outside directors

24. (a) At least one-third of the members of the board of directors shall be outside directors;

The banking corporation is entitled to appoint, as said outside directors, the outside directors and independent directors listed under the Companies Law; unless explicitly stated otherwise, in addition to the relevant provisions in the Companies Law, all the provisions referring to outside directors in this directive shall apply to said directors.

- (b) For the purposes of this directive, an '**outside director**' is someone who fulfills all the following conditions:

- (1) The qualifying requirements described in Section 240 of the Companies Law.

For this purpose:

- (i) "**Control**" is as defined in the Banking (Licensing) Law;
- (ii) "**Professional qualification**" – an academic degree as required under one of the conditions listed in paragraphs (1) or (2) of Section 2(a) of the Companies Regulations (Conditions and Tests for a Professionally Qualified Director with Accounting and Financial Expertise and for a

Professionally Eligible Director), 5765–2005, as well as experience required under its paragraph (3).

(iii) “**Linkage**” – In addition to the stipulations of Section 240(b) of the Companies Law, the existence of a linkage with a party holding over 5% of a particular type of means of control in the banking corporation shall also be regarded as a linkage that excludes appointment as a director.

(2) Neither the candidate or any relative holds shares in the banking corporation, in a corporation controlled by the banking corporation, in a corporation that controls the banking corporation, or in a banking corporation controlled by any of the above;

For the purposes of this section:

(i) “**Control**” is as defined in the Banking (Licensing) Law.

(ii) “**Holder**”—holding as defined in the Banking (Licensing) Law, 5741–1981, except for a holding of less than 1% of the paid-up capital of a corporation whose shares are listed on the TASE.

(iii) “**Relative**” – a spouse, parent, or son or daughter.

(c) The provisions of sections 239(d), 241, 244, 245(a), 245(a3), 245(b), 246, 247, and 249 of the Companies Law shall apply to an outside director according to this directive.

(d) Notwithstanding the stipulations of Section 245(b) of the Companies Law, the Supervisor is entitled to end the term of an outside director, who is not an outside director appointed in accordance with the Companies Law, under Section 11A(e) of the Ordinance, as well as to authorize a banking corporation to place on the agenda of the general meeting a shareholder’s proposal to terminate the term of said outside director, if the shareholder is entitled to do so according to the Companies Law and the banking corporation’s rules.

(e) In exceptional cases, the Supervisor is entitled to approve a candidate for the position of “outside director,” even if not all the conditions listed in subsection 24(b) above are fulfilled, provided that if it is an outside director who was appointed

in accordance with the Companies Law or an independent director appointed under the Companies Law, all the conditions set for such a case in the Companies Law are fulfilled.

The board's qualifications

25. In addition to the conditions for qualifications applying to each of the directors, as listed in Section 30, the board of directors shall collectively possess proper knowledge, qualifications, expertise and experience that are in accordance with the banking corporation's strategy and types of activity, provided that the following conditions are fulfilled:

(a) At least a third of directors shall have proven "banking experience."

For this purpose, "**have banking experience**" means someone who:

i. Has served at least three years in a senior position in a bank or in a foreign bank, and who dealt with management or control of a core area or of material risk to the banking corporation in which he or she serves as director.

"Senior position" in this Section—a manager reporting directly to the general manager as well as one reporting to a manager as described in the first section, including an internal auditor.

ii. Has served as a partner responsible for managing an audit at a banking corporation, including knowledge of building SOX processes during a cumulative period of at least 5 years, at an accountant-auditor's office (contingent on the existence of independence rules set in the Proper Conduct of Banking Business Directives of the Supervisor of Banks, and the provisions of any laws).

iii. Has served as a director at a banking corporation during a cumulative period of at least 9 years or as Chairman of a board during a cumulative period of at least three years.

iv. Someone whom the Supervisor of Banks has authorized as having parallel experience.

For banking corporations that are not banks, or banking corporations that are

subsidiaries of a bank, at least one fifth of all directors shall have banking experience.

- (b) At least a fifth of directors shall have “accounting and financial expertise” as used in Section 240 of the Companies Law.
- (c) At least half of all directors shall have professional qualifications as noted in Section 24(b)(1)(ii).
- (d) At least one director shall have knowledge and proven experience in information technology sectors.

This subsection shall not apply to banking corporation that is a subsidiary of a banking corporation and receive information technology services from the banking corporation that controls it.

- (e) To remove all doubt, a director who has several of the qualifications required in this section, can be counted as one of the directors required by those sections.

Knowledge of Hebrew

- 26. (a) The directors shall be fluent in the Hebrew language, at least at the reading and speaking level, to an extent that will make it possible to read background information for meetings and active participation in discussions.
- (b) The Supervisor may, in exceptional cases, exempt a director from the requirement noted in section (a).

Re-approval of appointment as director

- 27. Repealed.

Chapter 4: Chairman of the board of directors

Chairman of the board of directors

28. The board of directors shall be headed by a chairman.

The chairman of the board of directors is the person responsible for the proper functioning of the board of directors and for its meeting the obligations imposed on it. The chairman makes a significant contribution to maintaining the balances and the brakes in a banking corporation's corporate governance regime, between the board, senior management, holders of control, and other parties at interest. The chairman of the board must have appropriate experience, ability and personal abilities in order to fulfill the role.

- (a) All the obligations of a director shall also apply to the chairman of the board of directors.
- (b) The chairman is to encourage holding open discussions that allow the expression of differing opinions and to take care that decisions are made on the basis of adequate information.
- (c) In the absence of the chairman of the board of directors, his place shall be taken by one of the members of the board of directors.
- (d) The owner of a controlling interest in the banking corporation, or his relative, shall not serve as chairman of the board of directors.
- (e) An outside director shall not serve as chairman of the board of directors in a banking corporation with a controlling core.
- (f) A person shall not serve as chairman unless he participates on a regular basis in board meetings.
- (g) The board of directors shall establish policy for the maximum term of the chairman of board.

Nonresident chairman of the board of directors

29. Repealed.

Chapter 5: Eligibility to serve as director

Eligibility of director

30. (a) A director in a banking corporation shall be an individual.
- (b) Each director shall possess appropriate qualifications for his position, including education, knowledge, experience, or expertise in one or more of the following spheres: banking, finance, economic or business activity, law, funding, accounting, risk management, regulatory compliance, information technology, information security (including cyber security) accounting, or any other sphere authorized by the Supervisor.

Permanent conflict of interests

31. (a) A person shall not serve as a director if his business or regular occupations create a permanent conflict of interest between him and the banking corporation, or if it is reasonable to assume that such conflict may arise permanently.
- (b) Without derogating from the above, a person serving as a director or member of an investment committee, credit committee or employee (in this Section, all these— office holder) in the following entities shall not be appointed or serve as a director of a banking corporation:
- (1) A different banking corporation or a different corporation controlled by a different banking corporation or a corporation which controls another banking corporation, if these are not part of the same banking group or its controllers; It is clarified that the above does not serve as permission for the prohibited tenure noted in Section (b)(2) below.
- (2) A corporation (whether or not it is a banking corporation) controlled by the banking corporation;
- In order to remove all doubt, the stipulations of this section do not apply to simultaneous tenure in affiliated companies in the same banking group, provided that between the two there is no permanent conflict of interest.
- (3) A financial entity or corporation which controls a financial entity, in a case

where the banking corporation is large, or that the financial entity is large.

Notwithstanding the above, the tenure or appointment of a director in a large banking corporation simultaneous to his tenure as an office holder in a small financial entity or in a corporation which controls a small financial entity, and vice versa, shall be permitted.

For the purpose of this section, in a case where the candidate serves at a large banking corporation simultaneously to his candidacy or tenure in several small financial entities in the same group, such simultaneous terms will not be permitted if the total assets of those financial entities in the same group, in which the office holder serves or is a candidate to serve, is greater than NIS 2 billion.

In a case in which during a tenure which is permitted according to this Section, one of the conditions prohibiting such simultaneous tenure begins to come about (hereinafter in this Section, “the date of change”), the director shall be permitted to continue to serve the simultaneous term until the end of 6 months from the date of change or until the next annual meeting, the later of the two, and for an outside director, until the completion of 3 years of tenure.

- (4) No more than two directors shall serve in any banking group simultaneously with their tenure as office holders in any of the entities noted in Appendix C which belong to the same group.

It is clarified that the above does not constitute permission for tenure which is prohibited under sections (b)(1) and (b)(3) above.

For the purpose of this subsection:

**“Financial
entity”**

Any of the following:

- (1) An institutional entity as defined in the Supervision of Financial Services (Insurance) Law, 5741–1981;

	(2) A mutual fund investment manager as defined in the Mutual Funds Law, 5754–1994.
“Small financial entity”	A financial entity with not more than NIS 2 billion in total assets.
“Large financial entity”	A financial entity with more than NIS 10 billion in total assets.
“Total assets”	Based on the most recent annual report, including assets managed by it for others and assets of financial entities under its control.
“Employee”	Includes one with whom the entity has a permanent professional relationship.
“Group” or “Banking Group”	Banking corporations or entities noted in Appendix C, which are controlled, directly or indirectly, by the same controlling entity.
“Small banking group”	A banking corporation whose total balance sheet assets, on a consolidated basis, are not more than NIS 2 billion.
“Large banking group”	A banking corporation whose total balance sheet assets, on a consolidated basis, are more than NIS 10 billion.

- (c) A person shall not be appointed a director if he was a director of another banking corporation and less than a year has passed since he ceased to serve as a director there, unless the consent of the board of directors on which he previously served is obtained, or the consent of the Supervisor of Banks is obtained, after consultation with the chairman of the board of directors of which he was a member.
- (d) The board of directors shall establish guidelines for cases in which potential for a permanent conflict of interest exists. These guidelines shall deal with the following matters, among others:
- (1) The volume of business in which a conflict of interest exists;

- (2) The significance of the business in which a conflict of interest exists between the banking corporation's business and that of a director;

Other occupations

32. A person shall not serve as a director if his other occupations do not leave him sufficient time to fulfill his duties in that capacity.

Chapter 6: Board of directors' committees

Mandatory committees

33. Pursuant to the stipulations of Section 21, the board of directors shall appoint the following committees:

- (a) An Audit Committee, as described in Sections 35 and 36;
- (b) A Remuneration Committee, as described in Section 38;
- (c) A Risk Management Committee, as described in Section 39.
- (d) An Information Technology and Technological Innovation Committee, as described in Section 39a below.

This subsection shall not apply to a banking corporation that is a controlled banking corporation and receives information technology services from the banking corporation that controls it.

Composition and work methods of board of directors committees

34. (a) In addition to required committees, as noted in Section 33, board of directors committees and the areas of their responsibility shall be set based on the bank's characteristics, including its size, size of the board of directors, its strategic goals, activity environment, and risk profile.

- (b) The board of directors' committees shall consist solely of directors, and the number of committee members shall be not less than 3 and not more than 7 directors.

The composition of committees shall be based on the ratio established in Section 24(a), and the provisions of Section 28(d) shall apply regarding the appointment of a committee chairman.

- (c) Regardless of the stipulation of subsection (b), the following committees shall have a majority of outside directors:

- (1) Audit committee;
- (2) Committee for transactions with related parties (if established).
- (3) Remuneration committee, except as noted in Section 38(f).

- (d) In placing directors on the various committees, the board of directors shall take into account the directors' qualifications and experience and the subject in which the committee specializes;
- (e) The board of directors shall establish policy regarding the maximum term of service of committee chairpersons, and shall examine the need for rotation among the committee members;
- (f) The provisions of Chapter 7 regarding board of directors meetings shall apply to board of directors committees, unless expressly noted that the provision applies only to the plenum of the board of directors.

Audit committee—composition and work methods

35. (a) The board of directors shall appoint an “audit committee” and the provisions of Section 115 of the Companies Law, and the provisions in Section H of Chapter 3 of Part 3 of said law, with required changes, shall apply to it, as shall the stipulations of this directive. However, in a banking corporation which is a private company, a director who is employed by the banking corporation which controls on its own the said banking corporation or is employed by another corporation controlled by the said controlling banking corporation may serve on the audit committee.
- (b) In addition to the stipulations of Section 34(b)(1), the chairman of the audit committee shall be an outside director, and at least two members shall have accounting and financial expertise.
- (c) The legal quorum for meetings and decisions of the audit committee is a majority of its members, provided that a majority of them are outside directors.
- (d) If the chairman of the audit committee does not call a meeting within a reasonable amount of time, after being requested by the internal auditor to do so for the purpose of discussing a subject specified by the internal auditor in the request, as stated in Section 116(b) of the Companies Law, he shall keep detailed documentation of his reasons for not calling the said meeting, and shall inform the board of directors of those reasons.
- (e) At least once a year, the audit committee shall hold a meeting with the holders of

each of the following positions, attended only by the members of the committee and the position-holder:

- 1) The internal auditor;
 - 2) The external auditor;
 - 3) The compliance officer, as defined in Proper Conduct of Banking Business Directive 308;
 - 4) The legal counsel;
 - 5) The chief accountant, as defined in Proper Conduct of Banking Business Directive 305;
 - 6) The person responsible for prohibition of money laundering appointed under Section 8 of the Prohibition on Money Laundering Law, 5760–2000;
 - 7) The Chief Risk Officer, as defined in Proper Conduct of Banking Business Directive 310.
- (f) Decisions at the meetings of the audit committee and the committee for transactions with related parties shall be taken when only the committee members, and office holders whose presence is permitted by the Companies Law, under conditions set there, are present.
- (g) The audit committee shall hold at least six meetings a year.
- (h) The audit committee shall determine the budget that it needs to employ independent outside consultants, insofar as it deems this necessary in order to fulfill its duties.

Audit committee—functions

36. (a) The audit committee is responsible for dealing with internal and external audit reports, as follows:
- (1) The audit committee shall discuss and make decisions concerning the findings of internal and external audit reports brought before it. The committee must make sure that discussion of the findings takes place within a reasonable time following the date of their submission by the auditors:
 - (i) Internal audit reports - The chairman of the audit committee, in

consultation with the internal auditor, shall determine which material internal audit reports shall be brought in their entirety before the audit committee. The committee is entitled to decide that the other audit reports by the internal auditor shall be brought before it in summary or in full, as it sees fit.

- (ii) External audit report – The committee shall discuss audit reports by the Supervisor, other supervisory authorities, and the external auditor.

Where the Supervisor's audit report is concerned, the discussion shall take place no more than 45 days after the banking corporation receives the report.

The stipulations of Proper Conduct of Banking Business Directive 303 shall apply to the detailed report and supplementary report by the external auditor.

- (2) The audit committee, in consultation with the chairman of the board of directors, shall bring material internal audit reports before the plenum of the board of directors for discussion.
- (3) The audit committee shall make sure that management has taken the proper measures at the necessary time to correct the deficiencies noted in the audit report.
- (4) The audit committee shall discuss the reporting of the internal auditor once every six months, including the requirements arising from external audit reports, handling of which has not yet been completed, and the stage reached in handling them. In cases of a delay in handling them, the committee shall discuss the reasons for the delay and the timetables for completing this handling.
- (b) The audit committee is responsible for overseeing the internal auditor of the banking corporation, including:
- (1) The internal auditing function shall be subordinate to the chairman of the board of directors, and shall report to the board of directors through the audit committee.

- (2) The audit committee shall make recommendations to the remuneration committee regarding the salary, remuneration, and promotion of the internal auditor.
 - (3) The audit committee shall discuss and make a recommendation concerning approval of the internal auditor's work plan, including the scope and frequency of his audits. For this purpose, the audit committee must address the desired framework for internal auditing in controlled corporations in Israel and overseas, among other things.
 - (4) The audit committee shall monitor implementation of the internal auditor's work plan.
- (c) The audit committee shall be permitted to impose the carrying out of special examinations on the internal audit function, with reasonable notice, in addition to examinations established in the function's work plan.
- (d) The audit committee is responsible for overseeing the work of the external auditor of the banking corporation, including:
- (1) Discussing the possibility of replacing the banking corporation's external auditor, as described in Section 4 of Proper Conduct of Banking Business Directive 302;
 - (2) Bringing its views before the general meeting of the banking corporation when the end of the external auditor's term or failure to renew his term is on the meeting agenda;
 - (3) Making recommendations to the banking corporation's general meeting or the board of directors concerning the remuneration of the external auditor;
 - (3a) Implementing the Basel Committee guidelines regarding external audit at banking corporations concerning the audit committee and its relations with the external auditor, as detailed in BCBS¹: External audit of banks, part 1,

¹ In implementing the Basel Committee's guidelines, instead of referrals to accepted international auditing standards, auditing standards accepted in Israel shall be applied, including standards established in Accountants' Standards (accountant's work method), 5733-1973, and certain auditing standards whose implementation in auditing was determined according to the directives of the Supervisor of Banks and the Supervisor's guidelines.

section A, March 2014, with adjustments required by any law.

- (4) Additional instructions concerning the audit committee's overseeing of the external auditor, his reports, and the agreement with him shall be as explained in other Proper Conduct of Banking Business Directives (e.g. Directives 302, 303, and 304a).
- (e) The audit committee shall evaluate the banking corporation's annual and quarterly reports to the public, and shall discuss and make recommendations concerning their approval.
- (f) The audit committee shall make use of the audit functions' work in its evaluation of the effectiveness of the key internal controls in the banking corporation.
For the purpose of evaluating the effectiveness of internal controls for financial reporting or auditing, the audit committee shall establish procedures to arrange the following, among other things:
 - (1) The way in which the banking corporation receives and processes complaints concerning matters pertaining to its financial reporting and the internal controls over it, or to auditing;
 - (2) Anonymous and confidential transmission, including by employees of the banking corporation, of concerns relating to a disputed financial report or audit.
- (g) The audit committee shall discuss transactions as mentioned in Section 7 of Proper Conduct of Banking Business Directive 312, if the committee for transactions with related parties has not discussed them.

Committee for transactions with related parties

37. (a) The board of directors is entitled to appoint a committee for transactions with related parties to discuss the subjects specified in Section 7 of Proper Conduct of Banking Business Directive 312 and in subsection 36(f) above that have not been discussed by the audit committee.
- (b) The provisions and restrictions applying to the audit committee shall also apply respectively to the committee for transactions with related parties.

Remuneration committee—composition and work methods

38. (a) In a banking corporation to which Section 118a of the Companies Law applies, a remuneration committee shall be appointed, as per the noted section in the Companies Law, and at least one of the committee members shall have expertise and experience in risk management and control activities.
- (b) In a banking corporation to which Section 118a of the Companies Law does not apply, a remuneration committee shall be appointed of which most of its members shall be external directors, the chairman shall be an external director, and at least one of the committee members shall have expertise and experience in risk management and control activities.
- (c) An audit committee which fulfills the terms noted in subsection (a) or (b) regarding the composition of the remuneration committee, as relevant, excluding the requirement that at least one committee member have expertise and experience in risk management and control activities, may serve as remuneration committee as well.
- (d) The lawful quorum for remuneration committee meetings and decisions shall be a majority of its members, provided that most of them are outside directors.
- (e) Decisions in meetings of the remuneration committee shall be made in the presence of only committee members, and office holders whose presence is permitted under the Companies Law, under the conditions set there.
- (f) Notwithstanding the provisions of subsections (a) and (b) above, a banking corporation is permitted to add to the remuneration committee additional directors as committee members at discussions on remuneration policy and remuneration agreements with the overall workforce, except for key employees. The expanded remuneration committee shall not be required to have a majority of outside directors.

Remuneration Committee—functions

38a.

- (a) The remuneration committee shall discuss and recommend a remuneration policy (as

defined in Proper Conduct of Banking Business Directive 301A) to the board of directors, which is consistent with the banking corporation's organizational culture, long term objectives and strategy, and with its control environment. Remuneration incentives shall not encourage taking risks beyond the corporation's risk appetite.

(b) The committee shall approve, prior to the board's approval and the general meeting, if required, the specifications of the contract between the banking corporation with senior office holders with regard to their remuneration as these concepts are defined in Proper Conduct of Banking Business Directive 301A, with reference as well to issues noted in Section A and Section B of First Addendum A in the Companies Law; and the committee shall also recommend remuneration agreement principles to the board for banking corporation employees (who are not senior office holders), in order to ensure that the agreements are balanced and do not endanger the robustness and stability of the banking corporation. The committee's recommendations shall be detailed.

(c) The committee shall be responsible for planning the remuneration policy and shall submit its assessment to the board regarding the effectiveness of the policy and remuneration mechanisms and meeting regulatory requirements. The committee shall pay particular attention to the assessment of implemented mechanisms, among other things, in order to verify that they reflect all manner of risks, and capital and liquidity levels. In addition, with regard to anything related to indemnification and insurance, the committee shall consider updated figures on all commitments to indemnify, and amounts of insurance of office holders existing in the banking corporation, as well as estimates of the alternative cost to commitment in advance to indemnify (such as the cost of premiums charged by insurance companies for a policy identical to the indemnification terms).

(d) The committee shall formally examine how the remuneration mechanism will react to future occurrences, external or internal, via an analysis of a range of scenarios.

(e) The committee shall define what periodic reports shall be submitted to it, including their content and frequency. In addition, the committee shall define the detailed information that shall be submitted to it ahead of a discussion regarding the contract with an individual employee or group of employees in terms of remuneration (as defined in Proper Conduct of Banking Business Directive 301A). Among other things, it shall be defined that before

providing a recommendation or approval as noted in subsection (b), the committee must be provided with, a reasonable time in advance of the meeting in which these topics will be discussed, the main points of the previous contract and agreements and the main points of the proposed contract and agreements.

(f) The committee shall verify that at least once yearly there shall be an examination of the remuneration mechanism and its operation. The examination shall analyze, among other things:

1. The remuneration mechanism's meeting the policies established by the board.
2. The remuneration mechanism's meeting the requirements established in this Directive and in Proper Conduct of Banking Business Directive 301A and the requirements of all laws, and if it meets generally accepted practices.
3. The completeness of the remuneration mechanism.
4. The extent of the impact of the remuneration mechanism on the risk profile and on employees' conduct, and the extent that it is in line with the banking corporation's organizational objectives and risk appetite.

(g) The committee shall work in tight collaboration with the board of directors' risk management committee and the audit committee.

(h) The committee shall have unlimited access to data and analyses of the risk management and control, compliance, internal audit, and human resources functions, and shall be assisted by these functions in its discussions.

(i) The committee shall be able to make use of external consultation. The consultants shall be appointed in a manner which ensures that the consultation provided by them is independent of any consultation received by senior management, and shall not create a conflict of interest for any reason whatsoever.

Risk management committee

39. The risk management committee shall act as required under Directive 310, and in addition:

- a. Discuss and formulate recommendations to the board of directors regarding the Internal Capital Adequacy Assessment Process

(ICAAP) as noted in Section 6(g);

- b. Maintain an ongoing contact with the Chief Risk Officer and with other audit and control functions in order to be updated on the current risk profile, risk appetite, limitations and deviations from them, and risk mitigation plans;
- c. Maintain a work interface with the board's audit committee on material issues that are relevant to its areas of responsibility;
- d. Verify that new or developing risks are being handled as required and that the banking corporation's management allocated adequate resources to them.

Information Technology and Technological Innovation Committee

39a.

- (a) The board of directors shall appoint an "Information Technology and Technological Innovation Committee", and at least one committee member shall have knowledge and proven experience in the information technology area.
- (b) The Committee shall maintain a contact with the Information Technology Manager and the Information Security Manager, as the positions are described in Proper Conduct of Banking Business Directive no. 357, with the Cyber Security Manager as defined in Proper Conduct of Banking Business Directive no. 361, and with the function responsible for the innovation area.
- (c) The Committee shall discuss and make recommendations to the board on the following issues:
 - (1) IT policy and strategy and its management, including cyber and information security, the banking corporation's technological infrastructures, use and management of databases, technological innovation to support business innovation, and their alignment with the overall strategy and policy of the banking corporation.
 - (2) The manner of the banking corporation's preparation for banking of the future and business-related handling of the challenges of technological innovation in general and disruptive innovation in particular.

- (3) A framework for managing technological risk, including cyber and information security risk and innovation risk.
 - (4) A disaster recovery plan and the extent of its alignment with the framework principles for managing business continuity.
 - (5) Annual work plan and goals.
 - (6) Adequate allocation of resources for realizing the banking corporation's planned activity in the area of information technology, information management, and innovation.
- (d) The Committee will coordinate and maintain a work interface with the other board committees, as relevant, so that an issue discussed in one committee does not necessarily have to be discussed in another as well.
- (e) Whenever required by various Proper Conduct of Banking Business Directives to hold a discussion with the board plenum on issues related to information technology, the Committee shall hold a preliminary discussion as needed and shall submit its recommendations to the board plenum.

Chapter 7: Meetings of the board of directors

Frequency of meetings

40. (a) As a rule, the plenum of the board of directors of a banking corporation shall meet at least once a month. If the substance and scope of the banking corporation's transactions do not justify this, it is entitled to decide, with the approval of the Supervisor of Banks, that the meetings of the board of directors will be less frequent than specified in this subsection, but not less than one meeting every quarter.
- (b) A banking corporation shall convene a meeting of the plenum of the board of directors in instances specified in Section 98(b)-(d) of the Companies Law within 14 days of the relevant date, according to the case.

Attendance at meeting of the board of directors

41. (a) A director shall physically attend at least two-thirds of the meetings of the plenum of the board of directors during a calendar year, and shall not be absent from all meetings of the plenum during three consecutive months.
- (b) A director who has been absent from meetings beyond the limits established in subsection 40(a) above shall resign his position, and his resignation shall become effective no later than the date of the first meeting of the board of directors after the permitted number of absences was exceeded (hereafter – **the date on which his term ends**). If such a director does not resign by the date on which his term ends, his term shall expire on the date his term ends.
- (c) Notwithstanding the provisions of Subsection (a), participation in a meeting via the use of advanced means of communication shall be viewed as physical attendance for the purposes of complying with the participation obligation established in this section, provided that the share of meetings in which such participation is carried out does not exceed 25 percent of the number of meetings in the calendar year.
- In regard to this section, “advanced means of communication” – means that make it possible for all participants in the meeting to see and hear each other simultaneously.

Notices and background material for meetings

42. (a) Notice of a board of directors meeting shall be transmitted to all the directors within a reasonable time period prior to the meeting. The notice shall specify the time and place of the meeting, as well as reasonable details about all the subjects on the agenda.
- (b) Notice as stipulated in the preceding subsection 42(a) shall be accompanied by written background material that includes, among other things, its significance and consequences, including financial ones, and that enables the subjects for discussion to be addressed in a serious manner in the framework of the meeting. This background material shall be kept in the offices of the banking corporation, together with the minutes of the meeting at which the subjects to which it refers are discussed.
- (c) Only in exceptional cases will the board of directors be entitled, with the consent of all its members, to hold a meeting without notice as specified in subsections 42(a)-(b) above, provided that the minutes of the meeting state the exceptional circumstances for holding a meeting without notice as mentioned above.

Legal quorum and voting

43. (a) The legal quorum for a meeting of the board of directors and its decisions is a majority of its members, provided that the ratio among the directors is as stipulated in sections 24(a) and 26. In a case of a committee consisting of only three directors, the legal quorum shall be all its members.
- (b) Each director shall have only one vote in the board of directors voting. Nothing in this section shall prevent the granting of an additional vote to the chairman of the board of directors in a tie vote, in accordance with Section 107 of the Companies Law.
- (c) A director absent from a discussion for personal reasons, as described in Section 56, shall not be counted for the purpose of determining the legal quorum required for that discussion.

Agenda

44. The agenda of the board of directors' meetings shall include, *inter alia*, every subject that a director or the general manager asks the chairman of the board of directors to add to the agenda, if the request is made a reasonable length of time before the board of directors meeting convenes.

Minutes

45. (a) The chairman of the meeting shall be responsible for recording the minutes of the discussion. For the purpose of compiling the minutes, the chairman shall make sure that meetings of the board of directors are recorded and transcribed.
- (b) The minutes shall reflect the subjects discussed at the meeting, the main points raised and by whom, as expressed during the meeting, the wording of the decisions taken in the meeting, and the point at which each participant entered and left the meeting.
- (c) The board of directors shall determine guidelines for approving the minutes provided that:
- (1) The minutes are brought up for approval by the board no later than the next meeting or 60 days after the meeting to which the minutes refer, whichever is later.
- (2) Three business days after the meeting, the chairman distributes to the directors and the relevant parties a draft document listing the decisions taken at the meeting.
- (d) The documents that served as background material for the board of directors' decisions shall be attached to the minutes.

Participation of the internal auditor in meetings

46. The plenum of the board of directors must invite the internal auditor to attend a meeting in which a subject involving the internal audit is discussed, a meeting at which the audit reports of the external auditor are discussed, and a meeting at which audit reports of the supervisory authorities are discussed.

Determining additional work procedures

47. Repealed.

Substitution and observation

48. A substitute or observer director shall not be appointed in the board of directors of a banking corporation. With that, a director is permitted to participate in a meeting of a board of directors committee on which he is not a member, provided that his participation is not permanent.

Holding meetings via communications media

49. The board of directors shall establish procedures for holding meetings via advanced means of communication, as defined in Section 41(c); these procedures shall include the following items:

- (a) Only in special situations is it permissible to hold meetings of the board of directors without convening a frontal meeting, but via advanced means of communication (henceforth – meeting via communication media).
- (b) The board of directors of a banking corporation shall define in a detailed procedure the way a communication meeting shall be held, e.g., its initiation, quorum, background material, decision-making (including when members object to the proposal or to the urgency of the subject), documentation - including minutes - and any other matter determined by the board of directors. The procedure shall state the efforts to be made to involve all the members of the board of directors in the communications media meeting;
- (c) The decisions of the meeting via communications media should be shown to the relevant forum at the first (frontal) meeting held after the decision was taken, and the minutes of the discussion immediately after its completion;
- (d) Cancelled.

Making decisions without convening

50. A board of directors that is entitled under its articles of incorporation to make decisions without holding an actual meeting, given the consent of all the directors entitled to

participate in the discussion and vote on the subject to be decided, shall not be entitled to take decisions in this manner, except in special instances, while specifying the exceptional circumstances in the minutes of the decision.

Chapter 8: Practices for Effective Functioning of the Board of Directors

Work procedures

50a. The board shall take care to anchor its areas of responsibility and its functions, derived from this Directive and from any other relevant law or directive, in clear work procedures. These procedures are to include, among other things, the structure of the board of directors and its committees, the board's work processes and means taken to confirm appropriate coverage and the allocation of sufficient time to significant issues.

Requirements of a director

51. Each director shall:
1. Understand and carry out his duties, including his supervisory duty, while understanding the risk profile of the banking corporation.
 2. Exercise appropriate judgment in the affairs of the banking corporation.
 3. Devote enough time and effort to fulfilling his responsibility.
 4. Ask questions and insist on comprehensive and direct answers from management in a manner enabling him to properly evaluate the banking corporation's performance and the functioning of its management.
 5. Comprehend the regulatory environment and its role in corporate governance.

A director's right to receive information

52. A director who wishes to utilize his right to receive information in accordance with Section 265 of the Companies Law shall submit a written request for information, which will be discussed by the board of directors.

Professional assistance for the board of directors

53. The board of directors is entitled to employ external consultants, if the circumstances warrant this measure, as follows:
- (a) Assistance for a director - A director who wishes to exercise his right to employ

consultants in order to receive professional advice in accordance with Section 266 of the Companies Law shall first submit an annotated request for reimbursement to the board of directors. If the board of directors rejects his request, he shall transfer it to the Supervisor of Banks at least 21 days before petitioning the courts to approve his request to employ the expert.

- (b) Assistance for the board of directors – The board of directors shall establish procedures for agreements with external consultants for the purpose of obtaining professional assistance for the board of directors and its committees, provided that these procedures address the following matters, at a minimum:
- (1) Approval of the consultant (e.g., discussion of the need for consultancy and defining its purpose and the content of the consultant’s work);
 - (2) Choosing the consultant (e.g., investigating alternatives, professionalism, absence of conflicts of interest);
 - (3) Agreement and mode of working with the consultant (e.g., budget, fees, duration of the agreement, professional responsibility, and confidentiality).

In cases involving long-term or repeat consultancy, the need to renew the agreement and rotation should be periodically considered.

Signatory rights

54. (a) A director shall not have signatory rights on behalf of the banking corporation in its day-to-day business.
- (b) If the plenum of the board of directors believes that signatory rights should be granted to a director with regard to a specific matter, it shall authorize that director to sign specifically for that matter, in which case a senior office-holder in the banking corporation shall have counter-signatory rights.
- (c) The contents of this section do not apply if the signature of a director is required by law (e.g., signature on a financial statement, prospectus, etc.).

Sector conflict of interest

55. (a) Without detracting from the general rule on conflict of interest, a director with

linkage to a corporation in a subsector shall not be present at the discussions of the board of directors or its committees involving a customer of the banking corporation that is a corporation in the same subsector, and shall not receive information and reports from the banking corporation relating to that customer.

- (b) If there is any doubt as to the formulation of the quantitative tests mentioned in subsection (d), the director shall be exempt from the provisions of subsection (a) if a committee consisting of three outside directors has discussed the case and decided unanimously that in that case not to classify the linkage of the director to the corporation in the subsector.

Likewise, the said committee shall consider in cases in which the quantitative tests do not exist, if given the conditions in the case, a cautious approach should be taken and the director viewed as one with linkage to a corporation in a subsector.

- (c) The banking corporation shall make a list, to be updated every six months, of the names of the directors in linkage with a corporation in a subsector.
- (d) For the purpose of this section:

“Subsector” - Any subsector of an economic industry, according to the uniform classification of economic industries by the Central Bureau of Statistics.

“Corporation in a subsector” – A corporation whose volume of business (whether direct or via subsidiaries) in a specific subsector constitutes 5% or more of the total volume of business in that subsector (measurement of the total volume of business in a sub-sector shall be based on the accepted measure in that sector, such as the balance sheet total or revenues).

“Director with linkage to a corporation in a subsector” – A director fulfilling one of the following conditions:

- (1) He holds at least 5% of the controlling interest in a corporation in a sub-sector;
- (2) He is an office holder in a corporation in a subsector.

Personal interest

56. (a) A director with a direct or indirect personal interest in an existing or proposed transaction of the banking corporation brought before the board of directors for discussion, or in a decision that the board of directors is scheduled to make, shall declare his personal interest without delay, no later than the board of directors meeting at which the transaction is first discussed.
- (b) From the date of his declaration, a director with a personal interest as stated in the preceding subsection (a) shall not receive from the banking corporation information concerning that interest, shall not be present at a discussion concerning his interest, and shall not vote on a decision in this matter.
- (c) The board of directors shall establish guidelines for cases in which a director has a personal interest, including the specific examples (e.g., the type of relationship and the association with the transaction and the significance of that association), and shall establish rules of behavior in each of the cases.
- (d) The provisions of this section shall also apply, with appropriate changes, to an officeholder at a banking corporation who is not a director.

Relations with employees of the banking corporation outside of meetings

57. (a) A director shall not approach an employee of the banking corporation regarding the banking corporation's business issues other than in the framework of meetings of the board of directors or its committees, particularly concerning the following matters:
- (1) Business ventures for the banking corporation.
 - (2) Business affairs of specific customers.
 - (3) Specific investments of the banking corporation.
- (b) The stipulations of the preceding subsection (a) shall not apply in the following cases:
- (1) A business transaction in which the director has no personal interest, provided that the approach is made to the general manager and is documented;

- (2) Approaches described in paragraphs (2) and (3) of subsection 57(a) above, provided that the approach is made to the general manager and is documented. An approach by the chairman of the board of directors to the general manager is exempt from this documentation requirement.
- (3) Referral of potential customers to the banking corporation, provided that this referral is to the general manager, and the director does not discuss particulars of the transactions with potential customers and does not participate in such a discussion.
- (4) An approach to the appropriate person via the usual channels for clarification regarding a personal account held in that banking corporation, if the account belongs to the director, the director's spouse, or a corporation controlled by them.
- (5) An approach made through the chairman of the board of directors or the chairman of a committee of the board of directors for the purpose of clarifying a matter directly related to a discussion in the plenum of the board of directors or one of its committees. The approach shall be documented, and a copy of the documentation shall be transmitted immediately to the chairman of the board of directors and the general manager. The chairman of the board of directors shall decide whether to circulate the documentation to the members of the board of directors or to the relevant committee.
- (6) An approach by the chairman of the board of directors or the chairman of a committee concerning the method of composing documents submitted to the board of directors or one of its committees before a meeting, as well as any issue derived from the authority of his position as chairman of the board or of the committee, such as: setting the agenda for meetings.
- (7) An approach concerning general business matters and obtaining professional explanations, including in the area of risk management and control, provided that such approaches are reported to, and documented by, the bank secretary. An approach by the chairman of the board of directors is exempt from this reporting and documentation.

Win regard to this section: “documentation”—documentation in writing, composed by the banking corporation employee close to the enquiry date, and that includes the names of the enquirer and employee and their positions, the date and nature of the enquiry, and to the extent possible also the nature of the action taken because of the enquiry.

- (c) A director shall not serve in an active position in the banking corporation, and shall refrain from participating in its regular management.
- (d) A director shall not be present at discussions of management and its committees, other than being present at a discussion dealing with the banking corporation’s overall strategy.

Professional instruction and expertise

58. (a) The board of directors shall formulate and implement an annual plan of ongoing professional training for directors, adapted to the development of the banking corporation, its strategy, and its inside workings.
- (b) The instructional program shall address professional topics and topics relating to the functions of the board of directors and corporate governance.
- (c) The instructional program shall take into account the needs of all the directors, and the individual needs of each director, including the needs of new directors.
- (d) The board of directors shall revise the instructional program according to the changing needs.

Evaluating the effectiveness of the board of directors’ work

59. (a) Every two years, the board of directors shall conduct a process of self-evaluation for its internal needs. This self-evaluation shall assess the effectiveness and efficiency of the board’s work, including the board’s structure, the composition of the committees, work processes, and identify weaknesses in its work.
- (b) The board of directors shall appoint an entity on its behalf to coordinate this process and the analysis of the findings (an outside party, the bank secretary, a board of directors

committee, etc.).

- (c) The board of directors shall discuss the findings emerging from the evaluation process, and make changes as needed.

Chapter 9: Reporting to the Supervisor of Banks

Frequency of reporting

60. The secretary of the banking corporation, or whoever has been appointed by the board of directors, shall submit the following reports to the Supervisor of Banks:
- (a) An annual report, as described in Section 61, to be submitted each year by the end of January for the year ended on the December 31st preceding it.
 - (b) A report of a non-routine event, as described in Section 62, to be submitted as soon as possible after the event.

Annual reporting

61. The report shall comprise the following:
- (a) The names of the directors and their places of residence;
 - (b) The names of the members of the various board of directors committees;
 - (c) The frequency with which meetings of the board of directors and its committees are held, as follows:
 - (1) The number and dates of meetings of the plenum of the board of directors during the past year,
 - (2) A report of all the meetings of each of the board of directors'
 - (d) A description of the main occupation of each director and the names of the other corporations in which he or she is a director or the general manager.
 - (e) Other details, as determined periodically by the Supervisor.

Reporting an exceptional event

62. A report shall be submitted if one or more of the following occurs, and shall include the relevant details listed below:
- (a) A change in the composition of the board of directors or its committees, including a change resulting from the death, resignation, or dismissal of a director; this report should include a report to the Supervisor of Banks by the chairman of the board of directors regarding the reasons for the resignation or dismissal of the director, as well as a report to the Supervisor by the director regarding the reasons for his

resignation or dismissal;

- (a1) Deviation from the policy regarding the gender diversity percentage that was established by the Board in accordance with Section 21b.
- (b) The appointment of a general manager, approval of executive appointments, and appointment of an internal auditor and external auditor and termination of their employment for any reason whatsoever;
- (c) Exceptional events reported to the board of directors that constitute a deviation from the proper conduct of banking business or an infringement of the provisions of any law, or materially damage the interests of the banking corporation's creditors, customers or shareholders;
- (d) An announcement by the internal auditor of a failure to take appropriate steps to correct defects, in accordance with Section 46(b) of Proper Conduct of Banking Business Directive 307 regarding the "Internal Audit Function";
- (e) An announcement of the termination of the employment of the internal auditor, or of his suspension, in accordance with Section 53 of Proper Conduct of Banking Business Directive 307 regarding the "Internal Audit Function", as well as of the termination of employment of the Chief Compliance Officer and Chief Accountant
- (f) A report of the receipt of an announcement from the external auditor under Section 3(b) of Proper Conduct of Banking Business Directive 304;
- (g) A report of the approval of an action under Section 255 of the Companies Law;
- (h) A report of the approval of a transaction of a banking corporation that fulfills the stipulations of Section 270(1) of the Companies Law, and which constitutes an exceptional transaction under Section 272 of the Companies Law;
- (i) A report of a transaction under Sections 274–275 of the Companies Law;
- (j) Convening a meeting of the board of directors at the request of a director, as stipulated in Section 257 of the Companies Law.
- (k) A report of any of the following events: for the purposes of this section, "capital"—regulatory capital, per its meaning in Proper Conduct of Banking Business Directive 202 regarding "Regulatory Capital".
 - (1) A loss exceeding 5% of the banking corporation's capital accumulated since

the end of the last quarter for which a financial statement has been published;

- (2) A loss exceeding 1% of capital arising from a single action or transaction;
- (3) A loss by an overseas controlled corporation exceeding 3% of its capital, or in an overseas branch exceeding 3% of its notional capital arising from a single action or transaction, or a loss in a controlled corporation or branch exceeding 5% of the controlled corporation's capital or the notional capital of the branch accumulated since the end of the last quarter for which a financial statement has been published, provided that the loss exceeds the equivalent of \$1 million;
- (4) The classification of a debt as doubtful in part or in full, when the liability exceeds 5% of the banking corporation's capital;
- (5) An announcement by the external auditor under Section 6(c) of Proper Conduct of Banking Business Directive 302 (The external auditor of a banking corporation).
- (6) The exercise by the general meeting of the banking corporation of any authority of the board of directors under Section 52(a) of the Companies Law;
- (7) The exercise by the board of directors of the authority of the general manager under Section 52(b) of the Companies Law;
- (8) The annulment by the board of directors of a decision by the audit committee and/or the committee for transactions with related parties under Section 113 of the Companies Law.
- (l) Any other significant event, including an event requiring immediate reporting of an exceptional event under the requirements of any supervisory authority in Israel or overseas.

Mode of reporting

63. The reports specified in this chapter shall be made in writing and shall be available for perusal to all members of the board of directors.

Chapter 10: Miscellaneous

Documents of incorporation

64. (a) The documents of incorporation of the banking corporation and the corporations it controls shall be amended as necessary in such a way as to adapt them to these regulations and the stipulations of the law.
- (b) Notwithstanding the contents of Sections 50(a) and 58(b) of the Companies Law:
- (1) The general meeting of the banking corporation shall not assume the authority granted to another organ.
 - (2) The authority of the general manager of the banking corporation shall not be transferred to the board of directors.

* * *

Appendix A

Questionnaire for Candidate for Office in a Banking Corporation (Director, General Manager, Internal Auditor, Legal Counsel, Other)

Guidelines for Candidate

1. Answer all questions on the questionnaire and attach all the required documents. Filling out the questionnaire in the manner indicated is an integral part of the announcement of the appointment of an office holder, and the beginning of the process of examination by the Banking Supervision Department. Answers should be printed on the questionnaire itself.
If the answer to a given question is negative or the requested information is lacking, **note this explicitly.**
2. Terms in this questionnaire that are defined in the Banking (Licensing) Law or the Banking Ordinance shall carry the meaning given them in these statutes, except where explicitly stated otherwise.
3. The following are to be attached to the questionnaire: a detailed curriculum vitae, updated as of the date on which the questionnaire is filled out, and a photocopy of the candidate's ID card or, in the case of a nonresident, his/her passport. Likewise, wherever possible, attach also documents corroborating the details required in the questionnaire, e.g., photocopies of diplomas from academic institutions, etc..
4. The candidate must make a declaration before an attorney concerning the veracity and completeness of the details that he or she reported on the questionnaire, an undertaking to update the details, and consent to waive any right of confidentiality, using the format at the end of the questionnaire.
5. The Banking Supervision Department may, at its discretion and to any extent that it deems fit, avail itself of information beyond that provided by the candidate on the questionnaire.

6. The requests for information on this questionnaire are standard. Depending on the circumstances, the candidate may be required to provide the Banking Supervision Department with further details, and the Banking Supervision Department may also seek to obtain information from other parties. Therefore, the period after the application date and before the additional particulars are obtained shall therefore not be counted as part of the days mentioned in Section 11a of the Banking Ordinance.
7. A questionnaire that is improperly filled in, or to which the required references have not been attached, is likely not to be reviewed by the Banking Supervision Department.
8. After the appointment, if a change occurs in the particulars in the questionnaire, the change must be reported under Section 4 of this directive. It is hereby clarified that other answers in the questionnaire affected by such updated particulars should also be updated (for example, in the case of an appointment as a director in a different corporation, the questions in subsections 7.3–7.5 should be addressed again).
9. **The candidate must note and detail all information that is likely to be relevant to the review of his or her candidacy, even if he or she is of the opinion that it does not prevent the tenure.**

Banking corporation to which candidacy is presented: _____

Candidate details

1. Personal details of candidate

1.1 First name: Hebrew: _____ English: _____

1.2 Last name: Hebrew: _____ English: _____

1.3 Father's name: Hebrew: _____ English: _____

1.4 Citizenship: _____

1.5 Residency: _____

1.6 ID number (including control digit); for nonresident—passport number:

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1.7 Date of birth: _____

1.8 Place of birth: _____

1.9 Residential address:

City	Street	House #	Entrance	Apt.	Zip code
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1.10 Telephone number: _____

1.11 Mobile telephone number: _____

1.12 Email address: _____

2. Office for which candidacy is submitted

2.1 Description of position (General manager, Chairman of the board of directors, Director, Outside director as per the Companies Law, Outside director as per Directive 301, Internal Auditor, Legal Counsel, Other office holder) _____

2.2 Designated date of appointment _____

2.3 Appointment in the General Meeting or in banking corporation board of directors?

In the case of appointment as **director**, please answer questions 2.4–2.5 as well:

2.4 Status (Permit holder, Banking group employee, Other) _____

2.5 Membership in board of directors committees, if known _____

3. Education

In this section please refer to all types of education. For each one, please fill out (and attached documentation):

	Degree/academic certificate/other ²	Main field of study	Major(s)/ Specialization(s)	Name and location of academic institution	Number of years of study	Year degree received
a.						
b.						
c.						

4. Employment

In this section refer to all positions held in the past 10 years, as well as positions which you currently hold (including unpaid positions). For each one, please fill out:

	Employment period	Employer name	Business type	Was employer subject to the supervision of any regulatory authority, and if so, which one?	Positions you held in the business and your areas of responsibility	Please note additional relationships with the employer or with the controlling interest in it (shareholding, partnership in control, etc.)	Reason for leaving (resignation, layoff, retirement, end of contract, other-please detail)
a.							
b.							
c.							
d.							
e.							

5. Personal and professional integrity

² If there is no degree, please note explicitly.

Have any of the following occurred in the past? If so, please provide details and attach photocopy of the ruling, judgment, or court decision in the relevant cases:

5.1 Were you convicted of an offense in a court of law in Israel or in a court of law abroad?

Yes/No Detail: _____

5.2 Were you indicted? Yes/No Detail: _____

5.3 Were you investigated on suspicion of having committed a crime? Yes/No Detail:

5.4 Were you required to pay a forfeit? Yes/No Detail: _____

5.5 Was a financial or other type of sanction imposed on you, including in an administrative proceeding?³ Yes/No Detail: _____

5.6 Were you, or are you, a controlling party or senior office holder (director, general manager or one employee level below) in a company that was indicted (regarding an event that occurred during your term in the company)? Yes/No Detail: _____

5.7 Were you, or are you, a controlling party or senior office holder as noted in Section 5.6 above in a company on which a forfeit or financial sanction was imposed (regarding an event that occurred during your term in the company)? Yes/No Detail: _____

5.8 Were you, or are you, a controlling party or senior office holder as noted in Section 5.6 above in a company that was investigated on suspicion of committing a crime, with regard to your term in the company? Yes/No Detail: _____

5.9 Have you been convicted by a disciplinary entity? Yes/No Detail:

5.10 Are criminal investigations being conducted, or have they been conducted, against you or another business in which you were a controlling party or senior office holder as noted in Section 5.6, with regard to your term in the company? Yes/No Detail:

5.11 Are investigations of any type or disciplinary proceedings of any kind being conducted, or have they been conducted, against you or against another business in which you were a controlling party or senior office holder as noted in Section 5.6 above, by any regulatory

³ Including imposition of means of enforcement by the Administrative Enforcement Committee.

authorities, in Israel or abroad, or has notice been served that such proceedings are being considered, with respect to violation of requirements or standards of a regulatory system in Israel or abroad, (with regard to your term in the company)? Yes/No Detail:

5.12 Did you work for or hold shares in a corporation whose registration, certification, membership, or license has been revoked or suspended by a regulatory entity? Was your ability to engage in a field requiring a license negated or limited by the revocation, if any, of the relevant license of the corporation? Yes/No Detail: _____

5.13 Was your service as an executive or a director in an entity in which you served terminated in the past, or were you disqualified from serving as a director or from holding any other executive office? Yes/No Detail: _____

5.14 Has a court given you a restraining order as defined in Section 7 of the Companies Law? Yes/No Detail: _____

5.15 Has a State Comptroller's report been published which includes findings of a personal nature about you, including findings related to your performance? Yes/No Detail:

5.16 Has a civil suit been filed against you by any State authority regarding any term or position that you held? Yes/No Detail: _____

5.17 Are you are financially indebted to a third party as of the time of the declaration as a result of a judgment against you in Israel or abroad? Yes/No Detail: _____

5.18 Have you, in Israel or abroad, reached an arrangement with creditors, filed applications for bankruptcy, been declared bankrupt, had your assets confiscated, had an attachment placed on your assets, or are you involved in proceedings related to these matters? Yes/No Detail:

5.19 Are you, or have you been, a controlling party or senior office holder as noted in Section 5.6 above in a corporation that was liquidated or is the process of liquidation, excluding voluntary liquidation, or receivership proceedings, or which has reached an arrangement with creditors? Yes/No Detail: _____

6. Linkage and conflicts of interest

6.1 Are there relations (business, professional, occupational, or familial⁴) of any kind between yourself, and/or your relative⁵, and the holder of the controlling interest in the bank, whether such relations are based on co-ownership and/or in conduct of joint business/projects/ventures, or in any other way? Yes/No Detail: _____

6.2 Are you, your spouse, or a corporation in which one of you holds a controlling interest, or serves as chairman of the board of directors, general manager, or an office holder directly subordinate to the general manager, indebted, as indebtedness is defined in Proper Conduct of Banking Business Directive 313, to the banking corporation, a corporation controlled by the banking corporation, or the parent company of the banking corporation? Yes/No Provide details particulars for each debtor _____

6.3 Do you hold shares in the banking corporation, shares in a corporation controlled by the banking corporation, or shares in the parent company of the banking corporation? If so, state the name of the company, its number ⁶, and the percent of shares that you hold: _____

6.4 Do any of the following apply to you:⁷

(1) Control⁸ a material real corporation⁹?

⁴ The definition of relative is as per the Banking (Licensing) Law (see footnote 4).

⁵ "Relative"—spouse, sibling, parent, offspring, spouse's offspring, and the spouse of each of those.

⁶ For an Israeli company, as appearing in the Registrar of Companies; for a foreign company, note alongside the number the country in which incorporated.

⁷ Until the publication of a list of the material real corporations, in accordance with Section 30 of the Promotion of Competition and Reduction of Concentration Law, 5774-2013 (hereinafter, "the Reduction of Concentration Law"), the candidate is requested to answer this question, to the best of his or her knowledge, relying, to the extent necessary, on the relevant real corporation. From the point of publication of the list, the candidate is to answer the question relying only on the list.

⁸ Control, including the holding of a controlling parcel as defined in the Companies Law, in a real corporation which has no other holder of control.

⁹ "Material real corporation"—

- Until the publication of a list of the material real corporations, in accordance with Section 30 of the Reduction of Concentration Law:

A "material real corporation" is a corporation that is not a financial entity, and with one of the following features: (1) Its determining sales revenue is greater than NIS 6 billion, or greater than NIS 2 billion in a monopolistic market, with the calculation per the provisions of Section 30(a)(1) of the Reduction of Concentration Law; (2) Its determining credit is greater than NIS 6 billion, with the calculation per the provisions of Section 30(a)(2) of the Reduction of Concentration Law.

In this matter, "financial entity" is a corporation that is not one of the following: insurance company, investment manager of provident funds, a company designated for issuing index products, portfolio manager, mutual fund

Yes/No; details:_____

(2) A related party to someone who controls¹⁰ a material real corporation?

Yes/No; details:_____

(3) An office holder¹¹ in a material real corporation?

Yes/No; details:_____

6.5 In the case of an appointment as **director in a banking corporation without a controlling core** as per Section 11b(c) of the Banking Ordinance, the following questions must be answered as well:

6.5.1 Who is the factor who proposed your candidacy for a tenure as director to the general meeting (mark the appropriate answer):

6.5.1.1 The committee to appoint directors in banking corporations, which was appointed under Section 36a of the Banking (Licensing) Law (hereinafter, **the Committee**):_____

6.5.1.2 The holder of more than 2.5 percent of a specific type of means of control in the banking corporation—list the name and share of holding_____

6.5.1.3 A syndicate of holders¹², as per Section 11D(a)(3)(b) of the Banking Ordinance— list the name and share of holding_____

investment manager, merchant acquirer, banking corporation or auxiliary corporation, per the definition of such entities in the Reduction of Concentration Law.

- From the point that the list is published:

“Material real corporation” is a corporation included in the list of material real corporations, in accordance with Section 30 of the Reduction of Concentration Law.

¹⁰ “Related party to someone who controls”—relative (spouse, sibling, parent, offspring, spouse’s offspring, and spouse of any of these), partner of person who controls, or someone who has an employment, occupational, or professional relationship in general or control, and one who serves as an officer in the controlling entity.

¹¹ “Office holder”—general manager, head business manager, vice-general manager, deputy general manager, anyone acting in the capacity of any of these in a company, even if he or she has a different title, as well as a director or manager directly subordinate to the general manager, or any other employee directly subordinate to any of these.

¹² “Syndicate of holders”—2 or 3 holders of means of control in a banking corporation, each of which holds more than 1 percent and not more than 2.5 percent of a specific type of means of control in the banking corporation, and who together hold not less than 2.5 percent and not more than 5 percent of a specific type of said means of control.

6.5.2 In each of the following cases, you are requested to note if there exists one of the qualifications listed below with regard to you, and if yes—you are requested to detail the relevant information. Following is a detailed list of the cases (mark the appropriate answer):

6.5.2.1 To the best of your knowledge, do you or your relative⁴ hold more than one-quarter of 1 percent of the tradable shares in one or more of the following (if necessary, note the share of the holding, the name of the corporation or the holder and family relationship):

(1) In a banking corporation: Yes/No Detail: _____

(2) In a corporation controlled by the banking corporation: Yes/No Detail:

(3) In a material holder¹³ as defined in Section 11E(e) of the Banking Ordinance: Yes/No Detail: _____

6.5.2.2 To the best of your knowledge, do you or your relative⁴ hold means of control of any type (excluding tradable shares) in one or more of the following (if necessary, note the share of the holding and the type of means of control, the name of the corporation or the holder and family relationship):

(1) In a banking corporation: Yes/No Detail: _____

(2) In a corporation controlled by the banking corporation: Yes/No Detail:

(3) In a material holder⁷ as defined in Section 11E(e) of the Banking Ordinance: Yes/No Detail: _____

With regard to Sections 6.4.2.3, 6.4.2.4, and 6.4.2.5—tenure as a director in a banking corporation without a controlling core shall not be considered “linkage” with regard to someone who is a candidate for an additional tenure.

¹³ “Material holder”—one who holds more than 2.5 percent of a specific type of means of control in the banking corporation, one who controls the said holder, one who is controlled by one of them, a member of a holding syndicate as per its meaning in Section 11D(a)(3)(b), one who controls the said holding syndicate, and one who is controlled by one of them. See the list of holders of more than 2.5 percent on the Internet site of the banking corporation. Please note that reference should be made to both the list of related parties and to the list of holders as per Section 11D of the Ordinance, as well as to their controllers and those controlled by any of them.

6.5.2.3 Currently, or in the previous two years, do or did you or someone closely related¹⁴ to you have linkage¹⁵ as these terms are defined in Section 11E(e) of the Banking Ordinance to one or more of the following (if necessary, note the type of linkage, the name of the corporation or person, and detail the relationship with the closely related party):

(1) To a banking corporation: Yes/No Detail: _____

(2) To a corporation controlled by the banking corporation:¹⁶

Yes/No Detail: _____

(3) To an office holder in the banking corporation:

Yes/No Detail: _____

(4) To a material holder⁷ as defined in Section 11E(e) of the Banking Ordinance:

Yes/No Detail: _____

6.5.2.4 Do you currently have linkage⁹ as defined in Section 11E(e) of the Banking Ordinance to one or more of the following (if necessary, note the relationship):

(1) To a relative⁴ of an office holder at a banking corporation:

Yes/No Detail: _____

(2) To a relative⁴ of a material holder⁷ as defined in Section 11E(e) of the Banking Ordinance: Yes/No Detail: _____

(3) To a partner of a material holder⁷ as defined in Section 11E(e) of the Banking Ordinance: Yes/No Detail: _____

6.5.2.5 Do you or someone with whom you have a close relationship⁸ as defined in Section 11E(e) of the Banking Ordinance currently have business or professional relationships, even if such relationships are not usual, with one or more of the following (if necessary, note the details of the banking corporation or the person and the relationship with him):

(1) With a banking corporation: Yes/No Detail: _____

¹⁴ “Close relationship”—relationship between a person and his relative, his partner, his employer, one to whom he is directly or indirectly subordinate, and to a corporation in which he is the controlling shareholder.

¹⁵ “Linkage”—the existence of a work relationship, business or professional relationships or control, as well as tenure as an office holder.

¹⁶ Includes a banking corporation that was under the control of the banking corporation at any time during the past two years.

(2) With a corporation controlled by the banking corporation:¹⁰ Yes/No Detail:

(3) With an office holder in the banking corporation: Yes/No Detail:

(4) With a material holder⁷ as defined in Section 11E(e) of the Banking Ordinance who proposed your candidacy for tenure as director in the banking corporation: Yes/No
Detail: _____

6.5.2.6 In a case in which you are a candidate who has been proposed by the Committee to Appoint Directors in Banking Corporations, please answer the following questions:

(1) Do you have a linkage⁹ as defined in Section 11E(e) of the Banking Ordinance to a member of the Committee at the time of the appointment?¹⁷ Yes/No Detail:

(2) Are you a Minister, Deputy Minister or Member of Knesset, or do you have a personal, business, or political linkage to a Minister or Deputy Minister, or are you a State employee or an employee of a company which was set statutorily? Yes/No
Detail: _____

7. Further Details

Please answer the following questions. Where necessary, note and provide details in accordance with the requirements of the question.

7.1 Are you familiar with the directives of the Supervisor of Banks and the requirements stemming from the provisions of the law, or from other regulatory and professional provisions, which will apply to you as a result of your position as a director/internal auditor/other office holder, and do you undertake to act in accordance with these requirements? Yes/No Detail: _____

¹⁷ The list of Committee members is published on the Bank of Israel website.

7.2 Do you know of any factor whatsoever that is liable to limit your ability to comply with the above mentioned binding rules? Yes/No Detail:

Questions 7.3–7.9 only need to be answered by candidates for the office of **director**.

7.3 Are your other occupations liable to create (or is there a concern that they are liable to create) a conflict of interest between yourself and the banking corporation? Yes/No Detail: _____

7.4 What is the nature of the conflict of interest listed in Section 7.3 above? What is the frequency of said conflict of interest? Detail: _____

7.5 Do your other occupations leave you with enough time to discharge your duties as a director in the banking corporation? Yes/No Detail:

7.6 Do you serve as a director, investment committee member, credit committee member, or employee¹⁸ in one or more of the following entities: a mutual fund or investment manager of a mutual fund, a provident fund or a management company, insurer, portfolio manager, investment consultant, stock exchange member, underwriter, or another type of corporation of which its primary business is the capital market or a corporation which controls any of these companies? If so, please provide detail: _____

7.7 Do you have the appropriate talents for tenure as director in a banking corporation, among other things, from the perspective of education, experience or expertise in one or more of the following areas: banking, finance, economic or business activity, law, funding, accounting, risk management, regulatory compliance or information technology? Yes/No Detail:

7.8 Have you served in the past in a senior managerial position (including director) in a banking corporation, or do you have other banking experience (such as

¹⁸ “Employee”—including someone for whom there are permanent professional relationships between whom the entity and himself.

partner in an auditing–accounting firm responsible for managing the audit of a banking corporation)?

Yes/No Detail (position and term of service): _____

7.9 Do you have professional eligibility or expertise in accounting and finance, as they are defined in Section 240(a1) of the Companies Law? Yes/No Detail:

Questions 7.10–7.16 only need to be answered by candidates for the office of **outside director**.

7.10 Are you in compliance with the terms of Section 24(b) of Proper Conduct of Banking Business Directive 301?

Yes/No Detail: _____

7.11 Are you an employee of the Israel Securities Authority or the Tel Aviv Stock Exchange?

7.12 Do you serve as a director in another company in which one of the members of the banking corporation’s board of directors serves as an outside director?

Yes/No Detail: _____

7.13 Are you a relative¹⁹ of the controlling shareholder?

Yes/No Detail: _____

7.14 Do you, your relative, your partner, your employer, or someone to whom you are directly or indirectly subordinate to, or a corporation in which you are controlling shareholder, have or had in the past two years, a linkage⁹ to one of the following entities:

(1) The banking corporation Yes/No Detail: _____

(2) The controlling shareholder of the banking corporation Yes/No Detail:

¹⁹ “Relative” as defined in the Companies Law—“spouse, sibling, parent, parent’s parent, offspring, and the offspring, sibling or parent of the spouse, or the spouse of each of those”.

(3) A holder of more than 5 percent of a specific type of means of control in the banking corporation Yes/No Detail: _____

(4) A relative¹³ of the controlling shareholder Yes/No

Detail: _____

(5) A relative of someone who holds more than 5 percent of a specific type of means of control in the banking corporation

Yes/No Detail: _____

(6) A corporation which the banking corporation controls currently or controlled at any point in time during the past two years:

Yes/No Detail: _____

(7) A corporation in which the banking corporation's controlling shareholder controls currently or controlled at any time in the past two years:

Yes/No Detail: _____

7.15 Do you, your spouse, or any of your parents or offspring hold more than 1 percent of the tradable shares in any of the following entities:

(1) The banking corporation; Yes/No Detail: _____

(2) A corporation controlled by the banking corporation:

Yes/No Detail: _____

(3) A corporation which controls the banking corporation

Yes/No Detail: _____

(4) A banking corporation controlled by one of the entities listed above:

Yes/No Detail: _____

7.16 Do you, your spouse, or any of your parents or offspring hold non-tradable shares in any of the following entities:

(1) The banking corporation; Yes/No Detail: _____

(2) A corporation controlled by the banking corporation:

Yes/No Detail: _____

(3) A corporation which controls the banking corporation

Yes/No Detail: _____

(4) A banking corporation controlled by one of the entities listed above:

Yes/No Detail: _____

Questions 7.17–7.20 should be answered in accordance with the table structure below:

Corporation name	Corporation number ⁵	Type of business ²⁰	Percent of shares held	Type of corporation ²¹	Beginning date of relationship	Termination date of relationship
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7.17 List additional entities in which you serve as a board member or general manager.

7.18 List entities in which you have served as a board member or general manager during the past five years.

7.19 List the businesses and corporations in which you have a controlling interest (note the proportion of your holdings).

7.20 List businesses and corporations in which you are a party at interest, as this term is defined in the Securities Law, 5728-1968 (note the proportion of your holdings).

7.21 For a candidate for the position of director—list the corporations in a sub-sector to which you have some linkage, as described in Section 55 of Proper Conduct of Banking Business Directive 301. _____

7.22 Provide any other information that is relevant to the application. You must note and detail all information that is likely to be relevant to a review of your candidacy, even if you are of the opinion that it is not enough to prevent your tenure: _____

²⁰ Choose one of the following: general manager, chairman of the board of directors, director, outside director, controlling shareholder, party at interest, other.

²¹ Choose one of the following: banking corporation, auxiliary banking corporation, capital market corporation, other.

Declaration by Candidate

I the undersigned, _____, ID number _____, after having been warned that I must tell the truth and that I am liable to the penalties set forth in law if I fail to do so, declare the following:

1. I am aware that I am a candidate for the office of General Manager/Chairman of the Board of Directors/Director/Outside Director/Internal Auditor/Legal Counsel/ _____ (delete where inapplicable) in _____ (name of corporation). All the information and details that I have provided in this questionnaire are complete, correct, and truthful, and I undertake to give notice of any change in them, as required under Proper Conduct of Banking Business Directive 301, during my term in office, as soon as such changes occur.

2. I consent to the providing by the Israel Police of criminal information about me to the Banking Supervision Department for the purpose stated in the Crime Register and Rehabilitation of Offenders Law, 5741–1981, to the extent to which it is entitled to receive such information under the law.

I am aware that my consent, as stated above, exempts the Police and the receiver of the information from notifying me of the communication of the information about me.

3. I agree to waive any right of immunity or secrecy concerning any information about me possessed by police or other official agencies in Israel and abroad, including Interpol; any supervisory or regulatory authority in Israel or abroad (such as the Banking Supervision Department, the Supervision of Insurance, the Head of the Israel Antitrust Authority, and the Israel Securities Authority); tax authorities; and foreign banking corporations and banks. I consent to communication of the material possessed by them to the Supervisor of Banks.

The request for the information referred to in Sections 2 and 3 above shall be solely for the purpose of evaluating my candidacy and term as an office holder in a banking

corporation. Its validity shall continue during the entire period in which I serve in the above-mentioned position.

I hereby declare that this is my name, that this is my signature, and that the contents of my declaration are true.

Date

Signature

Attorney's Certification

I hereby certify on _____ (date) that Mr./Ms. _____, who identified himself/herself by means of ID card number _____/whom I know personally, appeared before Attorney _____ at my office at _____ (address), and after I warned him/her that he/she must declare the truth and that he/she will be liable to the penalties set forth in the law if he/she fails to do so, certified the correctness of the Statement and affixed his/her signature thereto.

Date

Stamp

Signature of attorney

Declaration of Banking Corporation

Name of banking corporation: _____

Code of banking corporation: _____

To the best of our knowledge and based on the information and details that the candidate furnished in this questionnaire, we believe that the candidate is suitably qualified to serve in the position that for which he/she is being proposed, and that his/her appointment does not contravene the provisions of any law and/or the Proper Conduct of Banking Business Directives of the Banking Supervision Department.

In the event that the candidate was or is an employee of the banking corporation, the Declaration shall also pertain to the following:

In a review by the internal auditor of the internal audit reports that the bank performed in the candidate's areas of responsibility, material findings whatsoever which have a personal connection to the candidate, including those related to his/her performance, were/were not (delete where inapplicable) discovered. (Insofar as such findings were discovered, please provide details; insofar as it is irrelevant to the candidate, please delete this line.)

Date	Name of authorized signatory	Function	Signature
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Review of Completeness of the Material Presented

This examination shall be performed by the banking corporation.

Mark the box with a check to confirm the presence of the information required for this questionnaire.

1.	All questions are answered.	
2.	Candidate's declaration to attorney	
3.	Declaration of banking corporation	
4.	Curriculum vitae	
5.	Photocopy of ID card / passport	
6.	Additional material	

Appendix B

Declaration of the Office Holder When Updating Particulars

I the undersigned _____, holder of ID Card No. _____, after having been warned that I must tell the truth, and that I will be liable to the legally stipulated penalties if I do not do so, hereby declare that all the information and particulars that I have provided in this updating notice are complete, correct, and true, and I undertake to give notice of any change, as required in Proper Conduct of Banking Business Directive 301, during my term, as soon as such changes occur.

I hereby state that this is my name, that this is my signature, and that the contents of my declaration are true.

Date

Signature

Attorney's Certification

I hereby certify on _____ (date) that Mr./Mrs./Ms. _____, who identified himself/herself by means of ID card number _____, and whom I know personally, appeared before Attorney _____ at my office at _____ (address), and after I warned him/her that he/she must state the truth and that he/she will be liable to the penalties set forth in the law if he/she fails to do so, certified the correctness of the Declaration and affixed his/her signature thereto.

Date

Stamp

Signature of attorney

Declaration of Banking Corporation

Name of banking corporation: _____ Code of banking corporation: _____

To the best of our knowledge and based on the information and details that the candidate furnished in this updating notice, we believe that the candidate is suitably qualified to continue serving in his/her position, and that continuation of his/her term does not contravene the provisions of any law and/or the Proper Conduct of Banking Business Directives of the Banking Supervision Department.

_____	_____	_____	_____
Date	Name of authorized signatory	Function	Signature

Appendix C

Capital Market Corporations

- (1) A mutual fund, as defined in the Mutual Funds Law, 5754–1994, or a company that manages such a fund;
- (2) A provident fund or a management company as defined in the Supervision of Financial Services (Provident Funds) Law, 5765–2005;
- (3) An insurer, as defined in the Regulation of Insurance Transactions Law, 5741–1981;
- (4) A portfolio manager, as defined in Section 8(b) of the Practice of Investment Consultancy and Investment Portfolio Management Regulation Law, 5755–1995;
- (5) An investment consultant or investment marketer, as defined in Section 7(c) of the Practice of Investment Consultancy and Investment Portfolio Management Regulation Law, 5755–1995;
- (6) A member of the stock exchange;
- (7) An underwriter for whom the eligibility terms are fulfilled under Section 56(c) of the Securities Law, 5728–1968;
- (8) A corporation whose principal business is in the capital market.

Revisions

Circular 06 number	Version	Details	Date
1210		Original directive	13/9/85
1394		Revision	11/1/95
1412		Revision	19/6/89
1473		Revision	13/8/90
----	1	Integration into Proper Conduct of Banking Business directives	8/91
1582	2	Revision	21/7/92
1606,1609	3	Revision	8/11/92
1615,1616	4	Revision	3/1/93
1715	5	Revision	11/7/94
1739	6	Revision	2/1/95
----	7	Updated version of Proper Conduct of Banking Business file	12/95
1928	8	Revision	21/6/98
2021	9	Revision	10/1/01
2038	10	Revision	22/8/01
2122	11	Revision	30/11/03
2161	12	Revision	28/2/05
2287	13	Revision	29/12/10
2313	14	Revision	6/11/11
2320	15	Revision	25/12/11
2332	16	Revision	30/4/12
2355	17	Revision	31/12/12
2403	18	Revision	19/11/13
2405	19	Revision	25/12/13
2421	20	Revision	26/5/14
2425	21	Revision	10/7/14

2476	22	Revision	29/6/15
2535	23	Revision	5/7/17
2581	24	Revision	13/11/18
2669	25	Revision	30/9/21
2681	26	Revision	26/12/21
2690	27	Revision	27/12/21
2691	28	Revision	18/1/22